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Federal Communications Commission
Office of Secretary

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Via Fax

July 11, 1996

The Honorable James H. Quello, Commissioner
Federal Communications Commission
1919 M Street, N. W.
Washington, D. C. 20554

Re: Docket 96-98

Dear Commissioner Quello:

As representatives of about 500,000 workers directly impacted by the Telecommunications Reform Act of 1996, we want to offer our comments with regard to FCC Docket 96-98.

CWA supported the Telecommunications Act of 1996 because it promised to have a positive impact on the U.S. economy. The analyses of Wharton Econometrics (WEFA) and others predicted substantial job growth as a result of telecommunications reform. Whether this becomes a reality depends, in large measure, on decisions the Commission will make regarding interconnection, resale, and unbundling.

The 1996 Act encourages competition as the means to stimulate innovation, investment, and job growth. Competition is the means toward these important goals--but not the goal itself. A critical endpoint in this policy debate is the creation of more and higher quality jobs in the telecommunications industry and the U.S. economy as a whole.

We are concerned that the employment implications of the FCC's decisions are not receiving the attention they deserve. We are further concerned that adoption of an incremental cost model will lead to the degradation of job quality and the loss of good jobs rather than to new job creation.

1. Policies which favor resale over facility-based competition destroy jobs

The decisions of the Commission with regard to interconnection, resale and unbundling will have a significant impact on employment and job creation. These decisions will determine the

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economic incentives for investment in the network of the future and in turn the impact on employment and job creation. Fundamentally, the FCC will set either the conditions to encourage investment and facilities-based competition; or alternatively, the conditions for the creation of a reseller industry.

Recent experience has shown that creating an industry based on reselling destroys good jobs without creating positive economic incentives for investment and growth. The typical reseller's level of investment is quite low and results in little macro-economic stimulus or job creation. Resellers typically pay wages which would not support the average American family of four. Resellers structure their workforces with high levels of turnover and extensive use of temporary employment which create great economic insecurity among workers. Workers in these fragmented firms find themselves in dead-end jobs without opportunities for advancement. Attempts by the employees of resellers to organize have been met with fierce, employer resistance.

The adoption of policies which encourage reselling over facilities-based competition will also increase pressure on the LECs. Those firms are likely to escalate their efforts to contract work out to lower-wage firms which market network services further decreasing the quality of newly created jobs.

2. Cream skimming and stranded investment will result in greater job loss

Unless this proceeding decides upon a cost methodology which compensates LECs for historic network and personnel costs, it will create new pressures on LECs to cut jobs and to raise residential telephone rates. While the LECs continue to bear the expense of the existing network, their competitors will be going after parts of the LEC business with the highest margins, including large business customers and long-distance access.

Financial markets will demand sustained profitability despite the loss of high-margin business. The typical corporate response is to cut variable costs, primarily labor costs, to reduce expenses and boost profits. This will mean significant job loss for members of the Communications Workers of America and a further worsening of the quality of career opportunities for the next generation.

In addition, we have already seen reductions in the quality of the service provided to captive customers as the number of front-line workers available to respond to customer needs is reduced. We have documented this decline in service in other instances and believe it is important for the FCC to integrate this past experience into today's decision-making.

3. Incremental pricing models undercut worker retirement benefits

Further stress on the LECs will result if FCC decisions are adopted which do not recognize the costs associated with worker pensions and retiree health. By definition, incremental cost models do not adequately compensate for embedded costs including long-term commitments to workers and their retirement benefits. Further, incremental cost models fail to recognize the dependence of all those firms reselling at marginal cost on the maintenance of a fully functional physical network which insures universal service.

In moving from a monopoly industry to a competitive one, we must account for the costs embedded in the existing system. TSLRIC and other proposals to provide interconnection at incremental costs will not adequately compensate LECs for their historic investment in the local network and their long-term commitments to retiree benefit programs.

Competition should stimulate innovation and investment, not at the expense of the decent standard of living and accrued benefits of today's communications workers. FCC policy should not punish those who have built the world's best communications industry. A comprehensive pension and retiree health benefit system has been collectively bargained by CWA and others. These are part of the cost structure of the existing industry. FCC modeling should include a mechanism to maintain them as the industry changes. Moving to an incremental cost model, while denying this history, amounts to a subsidy to some firms at the expense of others.

4. The FCC rules should encourage good faith negotiations between incumbent LECs and potential competitors, not mandate a pricing scheme.

Already in many states, LECs have negotiated interconnection agreements with competitive service providers.

The new telecommunication marketplace is one of large firms jockeying for position. They share a vision of selling bundled services, differing in who will do the selling. However, these are large firms able to negotiate in the marketplace with one another. The FCC should permit these negotiations to go forward and not adopt detailed marginal cost policies which will serve to undermine good jobs in the communications industry.

FCC policies encouraging competition often shelter new entrants into the market and shield them from the monopoly power of the LECs. Today, this model is unnecessary. The industry has changed fundamentally. The competition in question is among corporate Goliaths. The primary competitors to LECs will be multi-national, multi-billion dollar corporations who do not need the protections of FCC policy.

AT&T is a $70 billion company operating around the world. It has increasingly adopted the resellers' model of low-wage high turnover labor to market its services. Through its subsidiary Transtech, AT&T employs 4,000 temporary workers in one Florida location who earn just slightly more than poverty wages for a family of four. Workers attempt to raise the living standards by organizing a union were met with captive audience meetings, threats of job loss and other traditional anti-union attacks.

MCI today is a $15 billion company operating around the world with its British Telecom partner. MCI maintains the angry anti-union attitude of its founders and needs no assistance from the FCC to compete.

Sprint today is a $12 billion company. It is the subject of a tri-national investigation into its anti-union, anti-worker policies. The NLRB has found Sprint guilty of committing 50 unfair labor practices in order to keep their lowest paid employees from organizing.

TCI today is a $5 billion company whose CEO took home more than a billion dollars during the spin off of Liberty Media and vigorously resists unionization in every franchise.

These companies have created great wealth for their shareholders, facilitated by policies adopted by the FCC. The Commission has nurtured and supported their growth. Workers in the telecommunications industry require similar attention.

It is ludicrous to believe these major carriers need FCC "shelter" as they enter the resale market. A competitive policy on resale must recognize embedded costs for workers and consumers. The FCC should not encourage a system which makes a decent standard of living an "avoided cost" under its regulations. The FCC has a responsibility to consider the needs of workers in the industry it is restructuring.

5. **Creating good jobs is an important policy goal.**

The FCC should adopt policies which promote the creation of high quality jobs. These jobs will result from greater investment in and the more rapid deployment of new infrastructure. Policies which merely encourage marketing battles without corresponding infrastructure development will not create good jobs for America. The opposite result is more likely.

The FCC should make policy based on the reality rather than a theory of competition. The theory might suggest that the

Valu-Jet crash is not of concern to the public. The market will address the decision to operate with cheap labor and contractors. Reality dictates that the Valu-Jet crash was a tragedy and an economic framework of cost cutting should share significant responsibility for the circumstances which led to the crash. The FCC should not walk into the same trap.

Sincerely,

Morton Bahr

Morton Bahr
President